

Mecklenburg County

Quarterly Economic Update



September 2020

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Report Summary

COVID-19 remains the biggest source of uncertainty for the economy moving forward. Although we are anticipating a gradual improvement over time, a spate of new cases would greatly alter economic forecasts.

The recession hit hard and fast with the number of unemployed Americans swelling from 6.2 million in February to 20.5 million in three months. As a result, national unemployment rates went from near record lows of 3.8% to a record high of 14.4% by April. From April, the Country began on a path of recovery with national unemployment rates falling to 8.5% in August. Mecklenburg County has improved as well with unemployment rates falling from a high of 13.6% in May to 9.8% as of July.

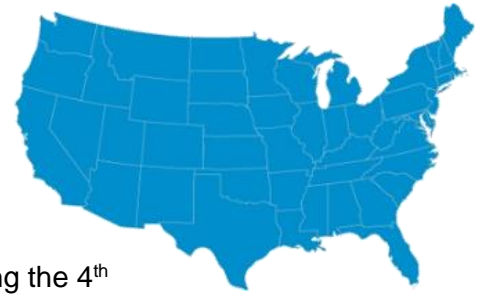
In the second quarter GDP fell by -32.9% due to shutdowns and stay-at-home orders. The third quarter is expected to improve by approximately 30% from the second quarter, which will make it the best quarter-to-quarter change on record. Growth is slowing pace, however, so it is expected that it we won't be back to pre-recession levels till late in 2021.

The Federal Government's actions and the upcoming election add to the uncertainty. As of August 1st, emergency unemployment benefits expired which will reduce consumer spending. Although President Trump has extended emergency unemployment benefits, albeit at lower levels than the initial round, continued support would require additional stimulus appropriations from Congress. Absent additional stimulus, it will take longer to get to full recovery. Finally, election years are always a volatile time for the economy as proposed plans of the different parties offer very different outcomes in fiscal, trade, and social policies. This election will undoubtedly be no different.

Note: Unless otherwise noted all dates and charts refer to calendar year

National Summary

The U.S. economy suffered its worst period ever in the second quarter, with GDP falling a historic 32.9%. The third quarter is set to increase by approximately 30%.



- Seasonally adjusted unemployment for the nation was 8.4% marking the 4th straight month of lower unemployment since the 14.4% high in April.
- US nonfarm payroll employment increased by 1.4 million in August. Of the 22.1 million jobs lost in March and April, the US has recovered 10.6 million.
- The Consumer Sentiment Index decreased in July to 72.5, matching the lows set in April and May.
- The Federal Reserve announced a change in monetary policy which will look to an average inflation target which means that rates will be held at lower levels for longer.

National Summary	Most Recent	Current Level	1 Yr Ago	5 Yr Ago	10 Yr Ago
Real GDP Growth	Q1 2020	-31.7%	1.5%	2.7%	3.7%
Points Variance			-33.2%	-34.4%	-35.4%
US Nonfarm Payroll	Aug-20	1,371,000	207,000	125,000	-5,000
Percentage Change			662.3%	1096.8%	-27420.0%
CPI-U	Jul-20	1.00%	1.53%	0.23%	1.54%
Points Variance			0.5%	-0.8%	0.5%
Consumer Sentiment	Jul-20	72.5	98.4	93.1	67.8
Points Variance			-25.9	-20.6	4.7
US Leading Index	Feb-20	1.72%	1.10%	1.70%	0.76%
Points Variance			0.6%	0.0%	1.0%
National Gas Prices	Aug-20	\$ 2.18	\$2.62	\$2.64	\$2.73
\$ Variance			\$0.44	\$0.46	\$0.55

Notes: Green highlights above show improving statistics; red areas show declining statistics. Consumer Price Index for Urban Consumers (CPI-U) was not given a color ranking as inflation should be looked at relative to target inflation. Year over Year (YoY) points refer to percentage point variance. All YoY numbers are expressed in terms of the last update received. i.e. If the last available update was FY 2019 then the YoY will compare to FY 2018. References to specific dates indicates the YoY is calculated from that date.

Local Summary

- The unemployment rate in July for Mecklenburg was above the state, but lower than the US at 9.8%.
- Sales tax collections for the first four months of the fiscal year are up 9.7% from the previous fiscal year. Performance is driven by lower refunds than last year
refunding in first four months was down 47%.
- The housing market remains strong with low interest rates, fewer homes for sale, and high demand all contributing to the 10.3% over last July's housing prices.
- A total of 4.6 million square foot of new office space is under construction in the County with an additional 640k square foot undergoing renovations. Most of the new construction is already pre-leased lessening the probability of overbuilding.



Local Summary	Most Recent	Current Level	1 Yr Ago	5 Yr Ago	10 Yr Ago
Mecklenburg Population Level	FY 2019	1,110,356	1,093,750	1,010,229	913,311
Percentage Change			1.5%	9.9%	21.6%
Mecklenburg Poverty Population	FY 2018	126,098	120,634	150,572	95,508
Percentage Change			4.5%	-16.3%	32.0%
Mecklenburg Poverty Population %	FY 2018	11.5%	11.2%	15.2%	10.7%
Points Variance			0.3%	-3.7%	0.8%
Mecklenburg Unemployment Rate	Jul-20	9.8%	4.3%	6.2%	10.8%
Points Variance			5.5%	3.6%	-1.1%
Mecklenburg Employed	Jul-20	561,943	590,195	481,963	436,055
Percentage Change			-4.8%	16.6%	28.9%

Notes: Green highlights above show periods of positive results; red areas show declining results.

Gross Domestic Product

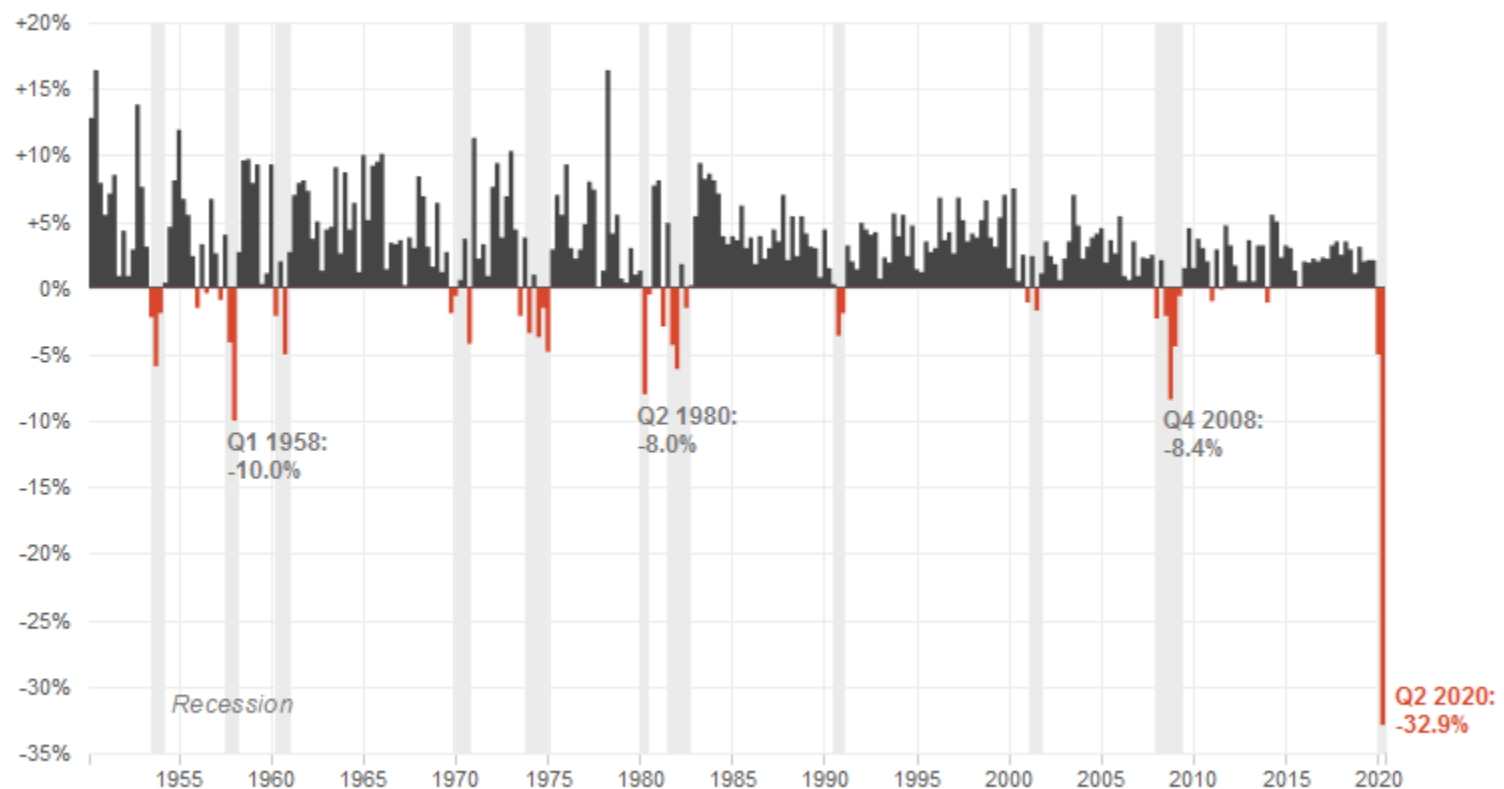
The U.S. economy suffered its worst period ever in the second quarter, with GDP falling a historic 32.9%. Expectations are for GDP to rebound in the third quarter by 30% followed by slower growth in the fourth quarter bringing the full year in at -3.0% for the year.

GDP fell sharply in the second quarter as most of the Country was shutdown due to the Coronavirus. The drop out paced all other declines on record by a factor of 3 to 4 times. Personal consumption, which historically has accounted for about two-thirds of all activity in the U.S., subtracted 25% from the second quarter's total, with services accounting for nearly all that drop. This is very different from a normal recession as generally spending on services holds up and durable goods such as cars and appliances take the brunt of the decline.

Much of the decrease in service spending was due to businesses closing their doors to aid in reducing the spread of the virus. Overall due to quick fiscal and monetary policies, American's incomes were largely unchanged. The \$600 emergency unemployment benefits were replacing on average 101% of incomes in North Carolina.

Economy Shrank At 32.9% Rate In 2nd Quarter

Percent change from the preceding period, seasonally adjusted annual rate



Source: Bureau of Economic Analysis

Source: Bureau of Economic Analysis

Employment

Nationally unemployment continues to trend downward. In North Carolina and the County, unemployment rates fell after the April high, but increased in July due to increases in labor force being higher than total employed. Expectations are for the unemployment rate to fall, albeit at a much slower pace.

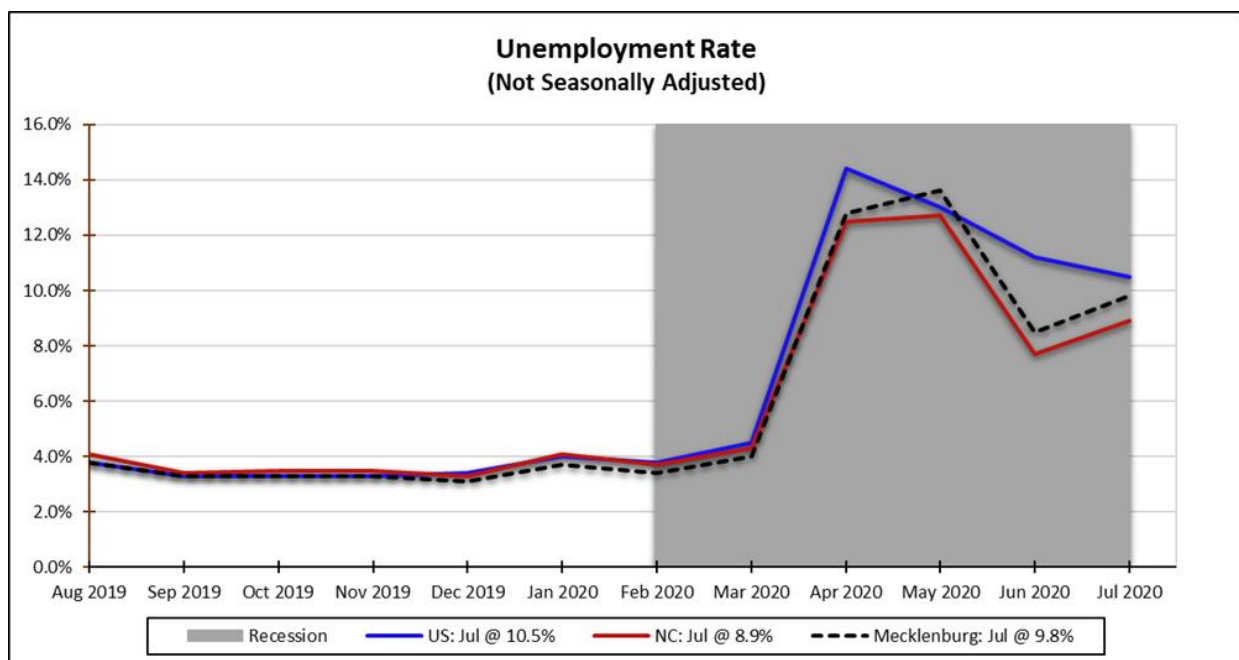
In Mecklenburg County the unemployment rate rose from 8.5 to 9.8% which was a slightly higher increase than the Charlotte MSA which increased from 8.3% to 9.3%. Last year the unemployment rate in July for the MSA was 3.9%. While the national average has continued to fall since April from 14.4% to 10.5%, North Carolina and Mecklenburg did not peak until May. June showed a sizeable decrease in unemployment for both the state and County with unemployment rates falling by 5.0% and 5.1% respectively.

Initial claims data is generally an indicator of future unemployment. The most recent initial claims data appear to point to improvements in the labor market. Data from the week ending August 22nd show that the insured unemployment count in North Carolina fell from 192k to 170k. However, the improvement is largely due to a different calculation used. In normal times a multiplicative adjustment is used in which the monthly unadjusted figure is multiplied against a seasonal factor. However, with the large number of unemployed the Department of Labor switched to an additive adjustment as the multiplicative approach tended to overstate the number of claims. This change means that if under the old policy the 170k would have been higher, so the decrease in claims is good, but not as good as it appears.

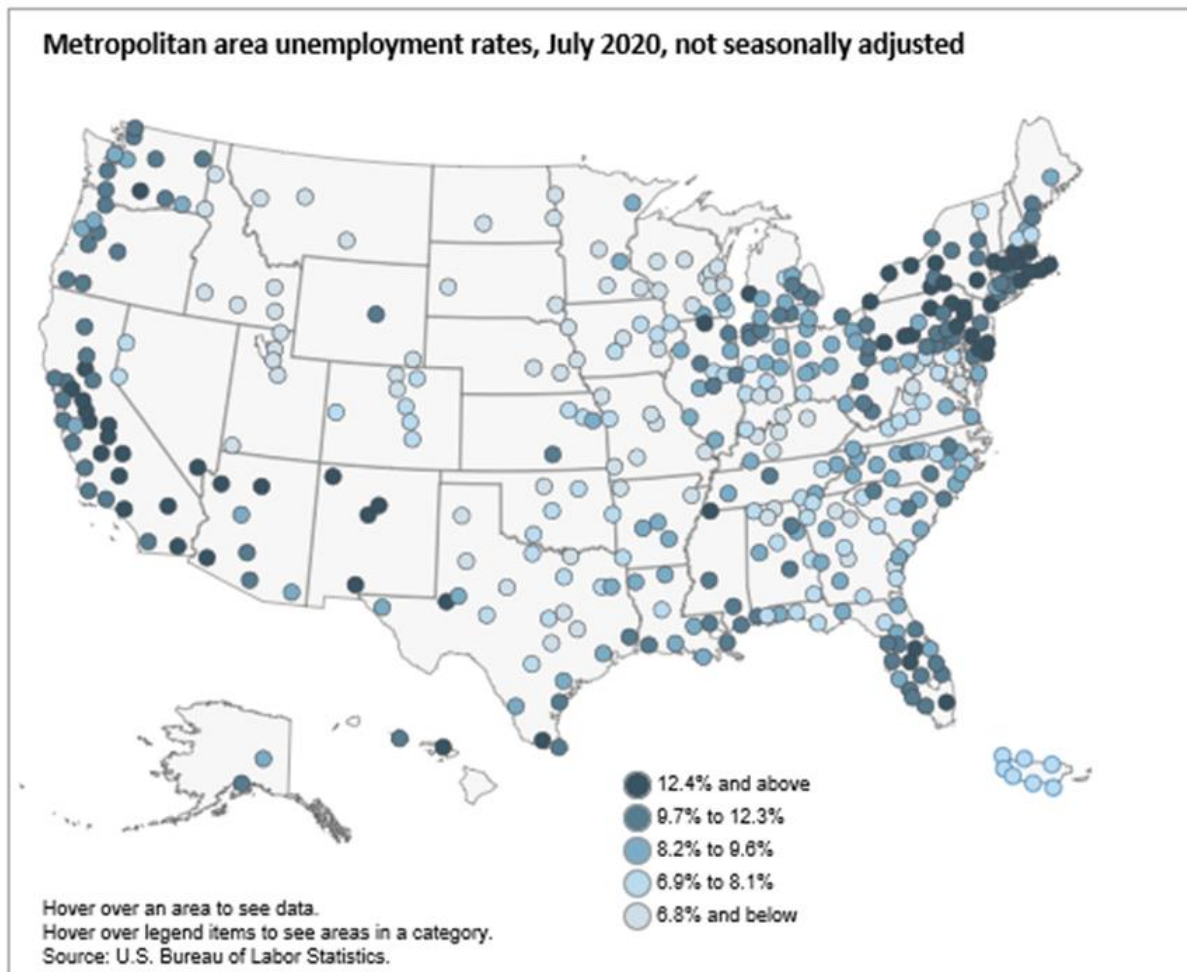
Other reports such as the ADP unemployment report showed 428k jobs were added to business payrolls in August, falling well short of the median forecast of one million. After dropping 19.4 million jobs from ADP payrolls in April, roughly 8.5 million have now returned over a four-month period with about 90% of these coming in May and June.

Unemployment Rates as of July 2020 (non-seasonally adjusted)

US	10.5%
NC	8.9%
Mecklenburg County	9.8%



The chart below shows that the highest unemployment rates in country are concentrated in Northeast, West Coast, and in Florida. The Southeast aside from Florida and Midwest were amongst the least affected.



Source: Department of Labor

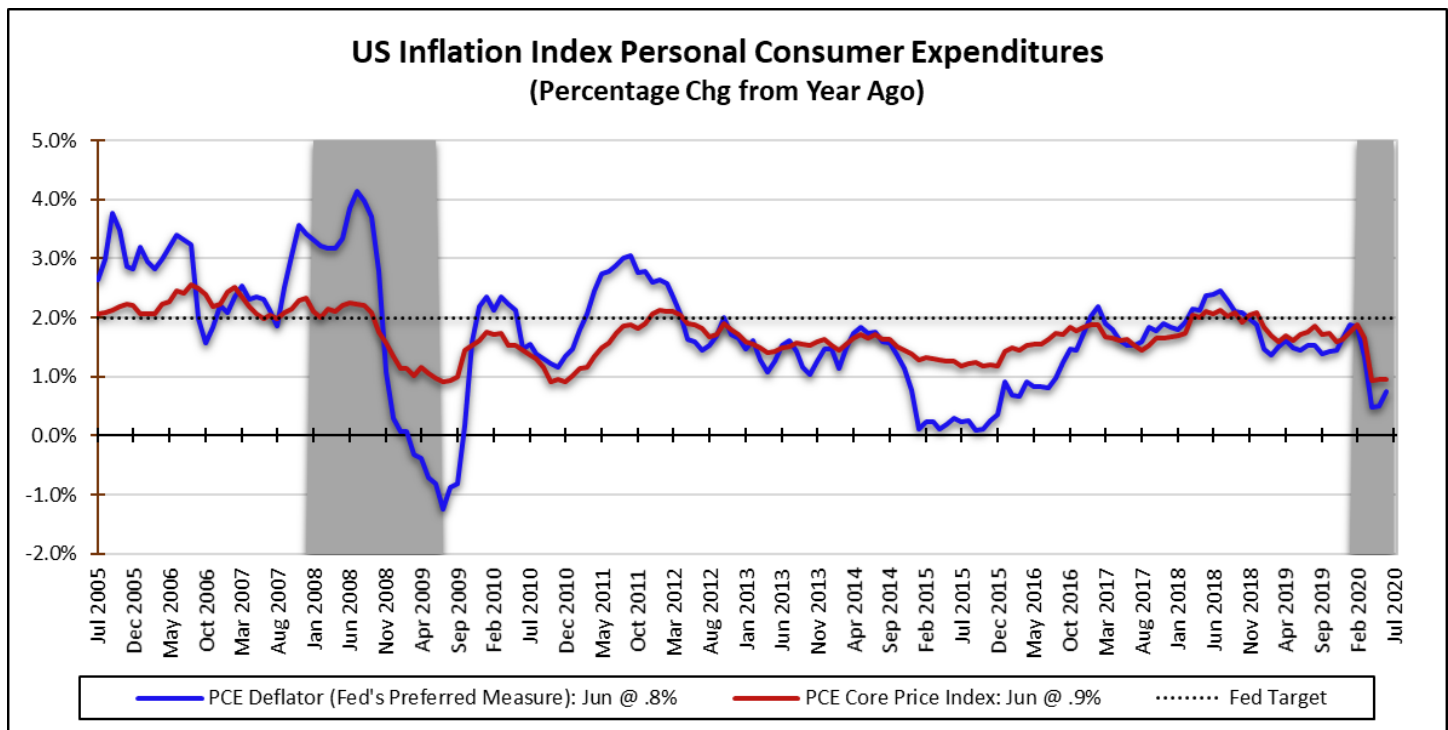
Monetary Policy and Inflation

Fed indicates acceptance of some inflation with no change in interest rates, suggests interest rates will be unchanged till 2023.

Fed Chairman Jerome Powell spoke at the Jackson Hole Economic Summit on August 26th. Summarizing his speech, he believes there is no longer any empirical evidence that would suggest that full employment is, in and of itself, a cause of rising inflation. The relationship between inflation and unemployment is known as the “Phillip’s curve” and has long been a staple of economic policy making. What this means is that the Fed is going to be willing to deal with higher inflation rates in the economy and look more towards an average inflation versus trying to hold closely to the target 2% inflation. This means that the fed fund rate should remain at near zero levels for longer than it would otherwise. Also, as the economy starts to heat up and prices start to increase the Fed will be slower to push on the brakes with higher interest rates.

The latest Fed dot plot shows the median projection for fed funds rate to be 0 to 0.25% through 2022. This means that bond interest rates should allow for favorable borrowing conditions to the County for the next few years.

The personal consumer expenditure (PCE) deflator is currently at 0.8%, well below the Fed target. Part of the decision making above is linked to how long inflation has remained low. For the past decade inflation has been below 2% for most of the decade only briefly climbing up to 3% once 2011.

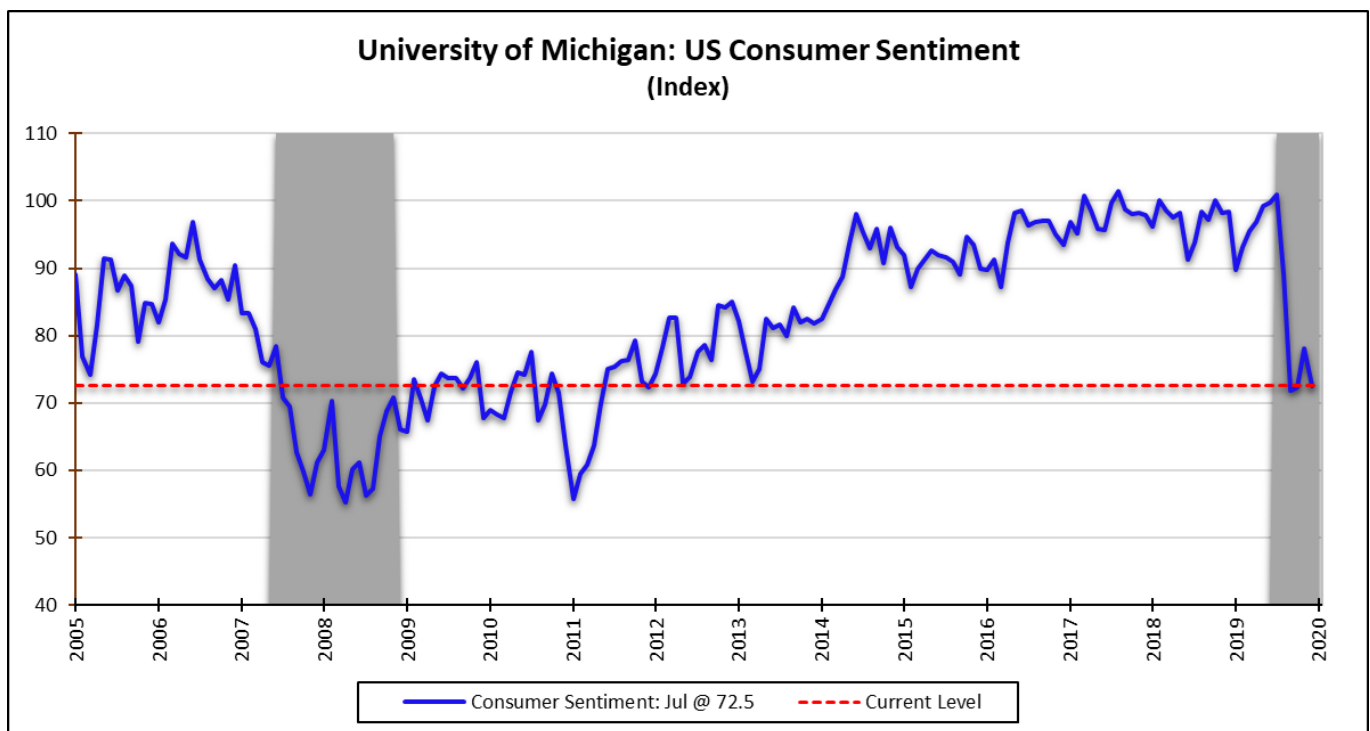


Source: Federal Reserve & Jackson Hole Economic Summit

Consumer Sentiment

Consumer sentiment remains nearly unchanged from the lows of the previous five months

In August consumer sentiment increased +0.4 Index points above the April to July average. The small August gain reflected fewer concerns about the year-ahead outlook for the economy. The pandemic has created distinctive consumer reactions to the economy. Since the April shutdown of the economy, a sizable number of consumers thought conditions could hardly get any worse. The natural response was that economic conditions would improve given the absence of any negative economic causes for the recession. For example, while nine-in-ten consumers viewed the current state of the economy negatively in August, half of all consumers anticipated the economy would improve in the year ahead. Although half anticipates an improved economy, when asked to judge the performance of the economy, 62% judged that the overall conditions in the economy could be best described as unfavorable. Although strong gains in consumer spending from the 2nd quarter lows can be anticipated, those gains will significantly slow by year-end without some additional fiscal spending programs to diminish the hardships faced by unemployed workers, small businesses, as well as support for state and local governments.



Source: University of Michigan

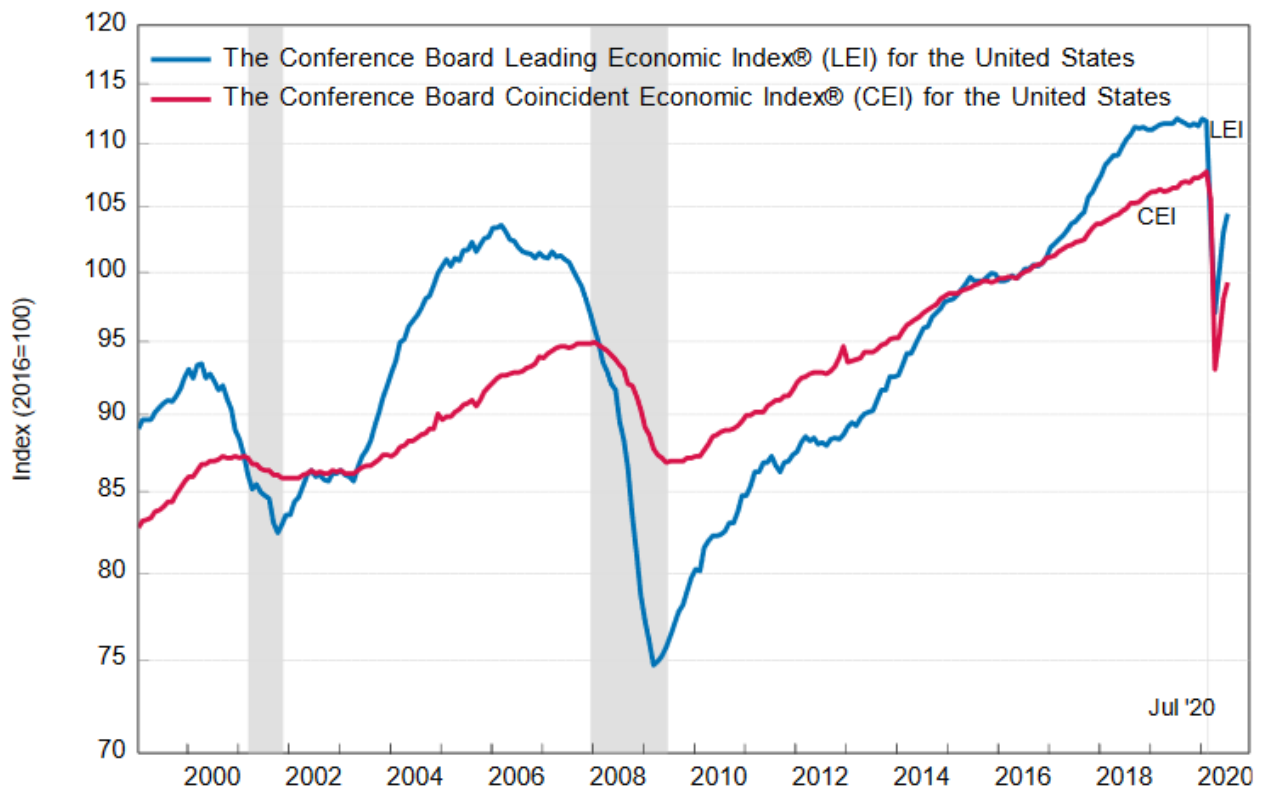
Leading Economic Indicator (LEI)

The indicator suggests that the recovery will continue, but at a slower pace through 2020

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 1.4 percent in July to 104.4 (2016 = 100), following a 3.0 percent increase in June and a 3.1 percent increase in May.

“The US LEI increased for the third consecutive month in July, albeit at a slower pace than the sharp increases in the previous two months,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “Despite the recent gains in the LEI, which remain fairly broad-based, the initial post-pandemic recovery appears to be losing steam. The LEI suggests that the pace of economic growth will weaken substantially during the final months of 2020.”

The composite economic indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components.



Source: The Conference Board

Sales Taxes

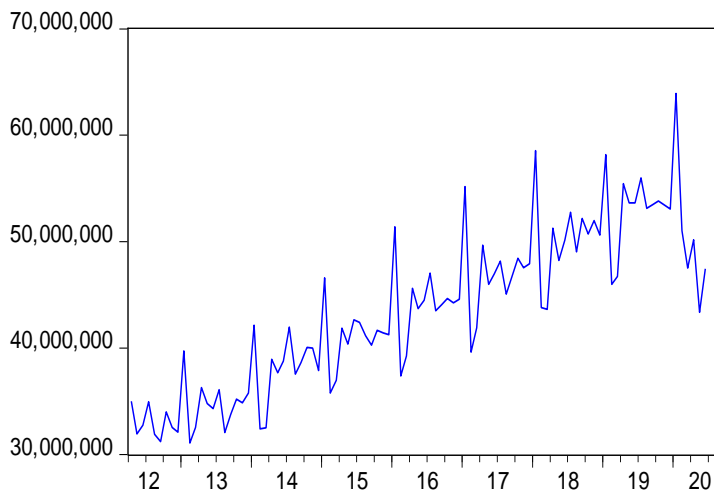
Sales tax collections the County fell due to COVID-19 and associated closures and uncertainty, coming in below budget but in line with COVID-19 updated estimates. Signals for future are uncertain due to congressional relief negotiations and nature of COVID-19.

County sales taxes have been hit hard by COVID-19, as of June the County's fiscal-year-to-date growth was only up 0.6% from last year. The recession erased nearly all the accumulated gains made prior to the recession, as in February the County's pace of sales tax growth was pacing at 7.9%, on pace to be one of the better years for sales tax growth in the past few years.

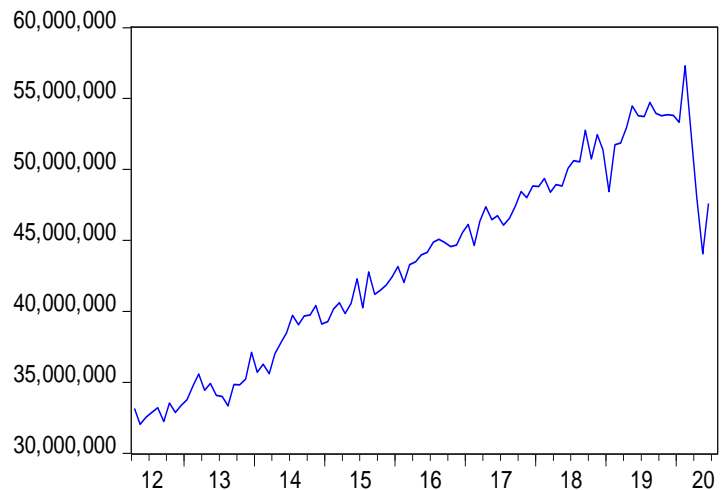
Sales tax analysis is difficult due to the unpredictable nature of refunds which have ranged from \$0.2 million to \$11.2 million in any given month over the past five years. With an almost random timing of refunds we look to sales collection data which is less volatile to aid in the analysis. The charts on the right show collections in Mecklenburg County as they are on top and the seasonally adjusted collection below.

The County in the prior 12 months from February showed collections up 7.1%. Since March the growth in collections has been negative with March (-14.3%), April (-6.5%), May (-19.2%), and June (-15.3%) all coming in much lower than last year.

County Collections

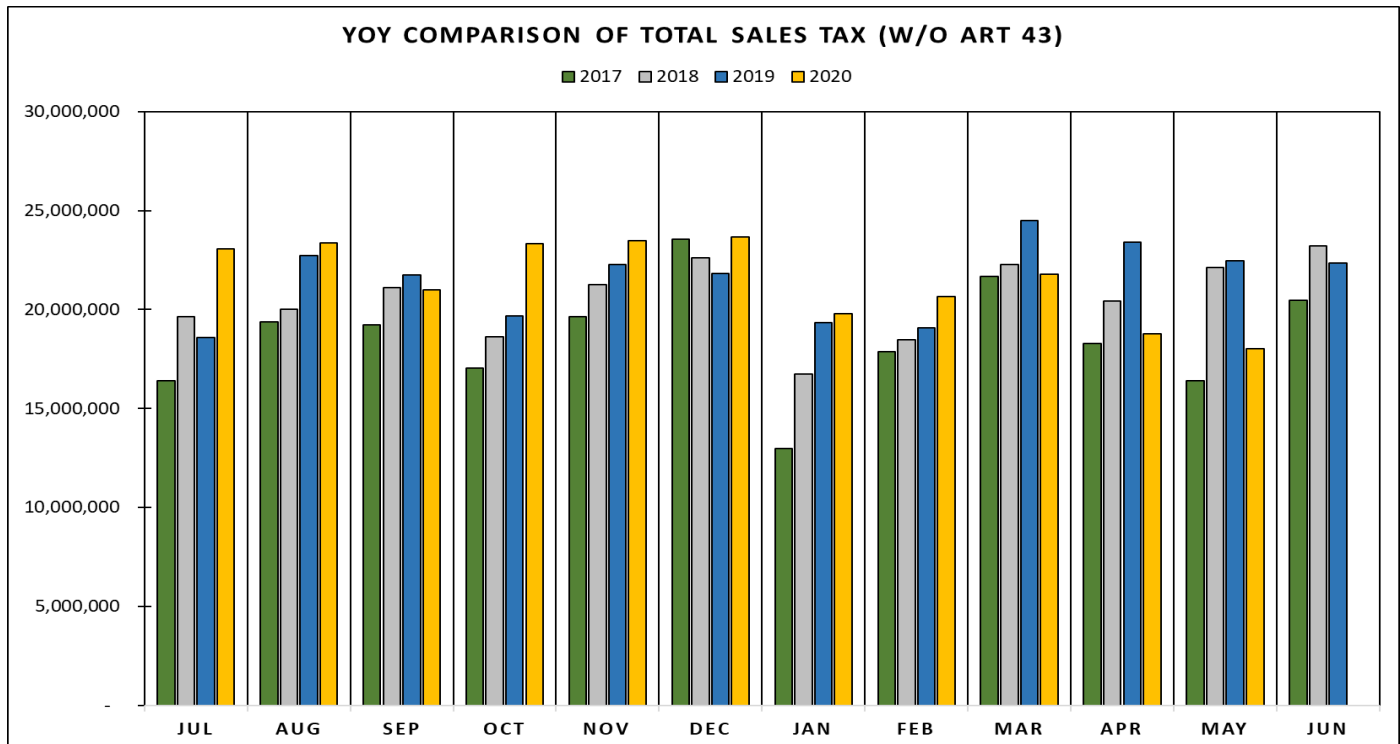
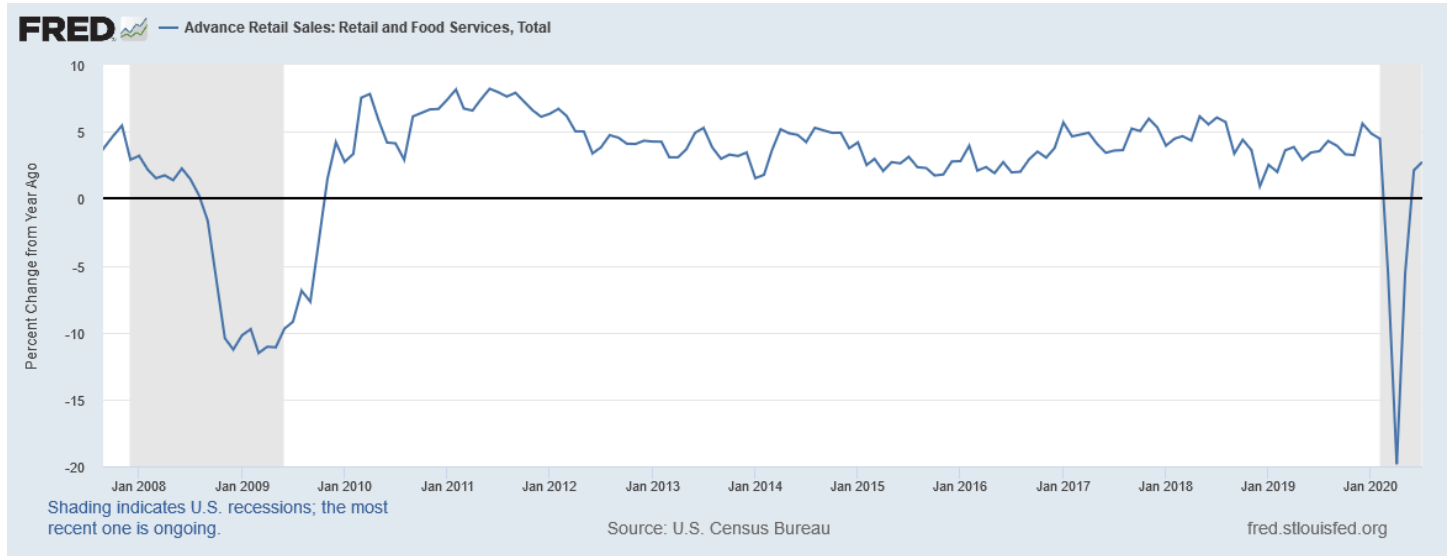


County Collections
(Seasonally Adjusted)



Recent reports show retail spending picked up momentum in July with advance estimates of U.S. retail and food services sales for July 2020 at \$536.0 billion, an increase of 2.7% above July 2019. However, the recent gains are still only roughly half the pre-COVID year-over-year returns.

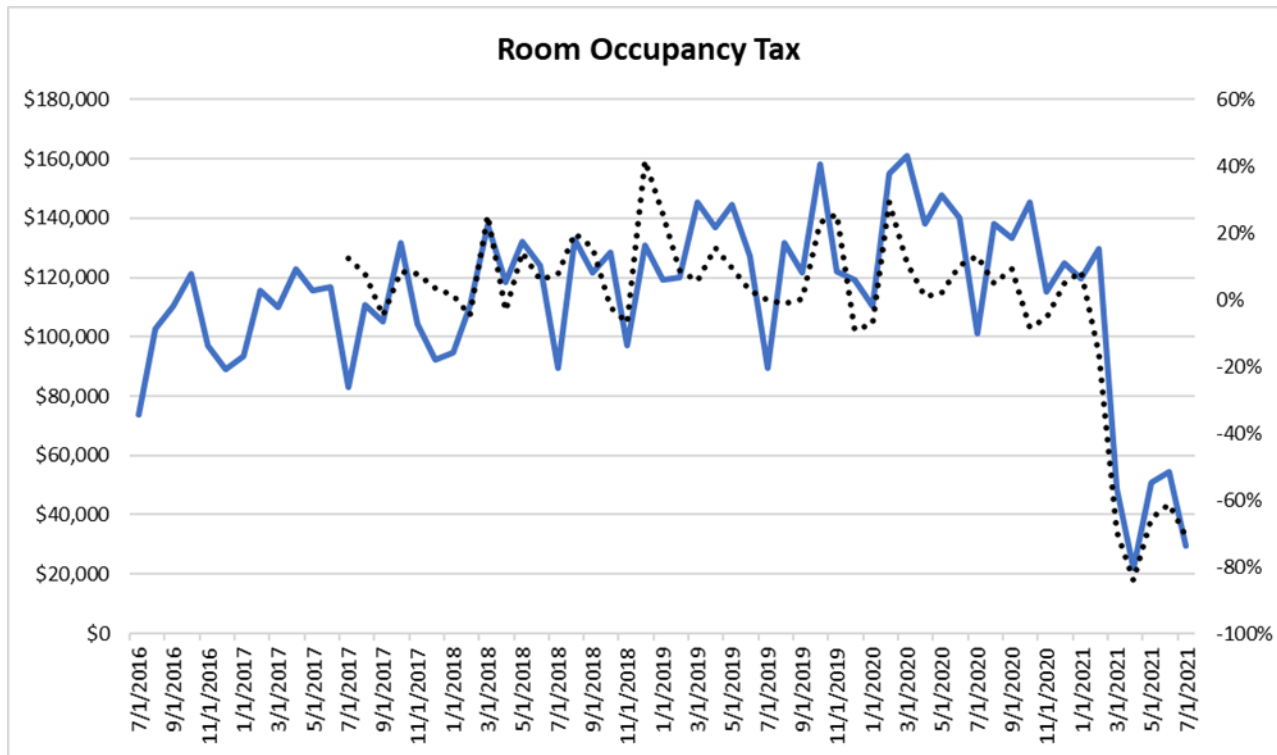
Sales taxes in May were down 19.8% despite retail sales signaling declines of -5.5%. In May refunds totaled \$8.3 million, significantly higher than the previous 5-year May average of \$3.7 million. Such spikes in refunding occasionally occur. This fiscal year we have had two other large refunding spikes that occurred in September and another January. These events rarely occur back to back, therefore in June would expect a more normal refunding period of approximately \$2.6 mil in refunds.



Source: North Carolina Department of Revenue (NCDOR)

Room Occupancy Tax

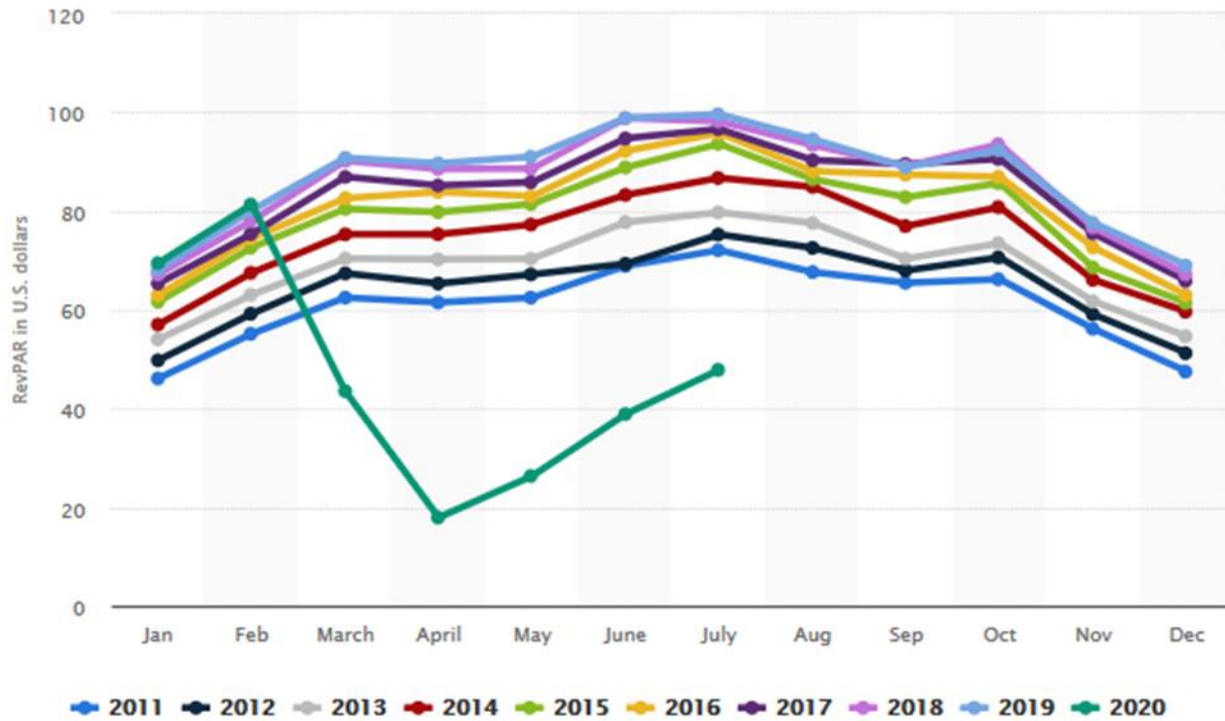
After two months of improvement from the April lows, the 1st month of the fiscal year started off poorly with room occ collections at \$29,413, a 70% reduction from the prior year. In April room occupancy collections posted an 85% decline followed by May showing a 65% decline, and then in June improving again with a 61% decline. The downturn in July was likely affected by the increase in unemployment experienced in the State in July as well as the uncertainty in July of expiring emergency unemployment benefits and the rise in COVID-19 cases experienced in the month.



Collections shown in blue (left axis) and year-over-year percentage change dotted line (right axis)

The following page contains a chart that shows revpar (revenue per available room) for the US was up in July so we are experiencing a disconnect in terms of US to local conditions. Room occ taxes for the County do vary and July of last year did show a 13% growth over its previous year so this may not be cause for alarm. We will need to look to August to see if the we improve or continue to fall further. However, August will likely show further weakening as unemployment benefits were not available during the transition from the \$600 emergency benefits to Trump's enacted \$400 benefit. Also, the benefit was reduced by \$200 which will translate to less spending overall.

REVPAR for US hotels



Revpar (revenue per available room) is a common metric used in the hospitality industry that captures both occupancy and the average daily rate.

Mecklenburg County Second Quarter Office Market Statistics

The office market in the County is set to continue to grow and thrive as investors and companies move to Mecklenburg due to its value and attractiveness compared to other markets.

Market Outlook

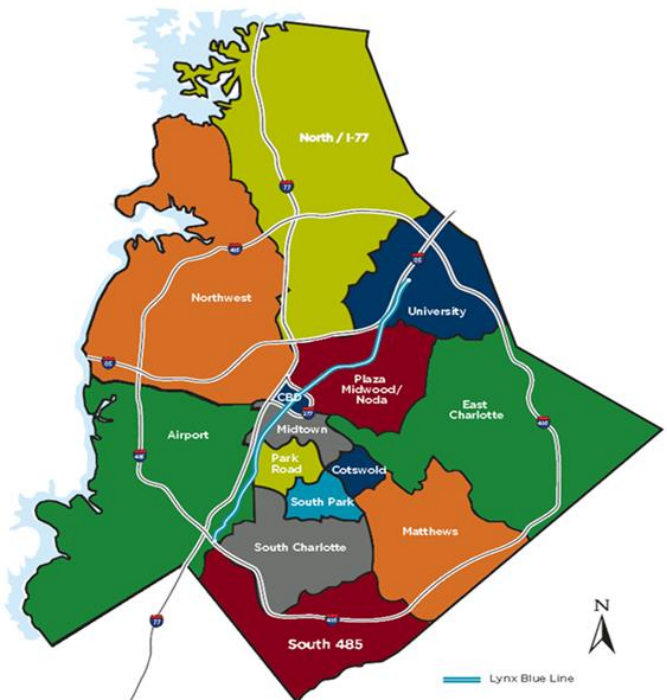
Charlotte's suburban submarkets will continue to flourish comparatively to the CBD as real estate investors and tenants continue the flight to value, affordability and convenience. As national and global investors continue to chase yields at this stage in the cycle, secondary markets like Charlotte should remain attractive and enjoy higher investment volumes than gateway markets. Furthermore, developers will focus on highly sought-after urban infill (Midtown) areas.

Construction

After delivering a record-setting 2.6 million square foot (msf) in 2019, new deliveries have slowed (272,000 sf YTD) as construction ramps back up. Deliveries are expected to double in the second half of 2020, with 550,000 sf of anticipated new deliveries. With 4.6 msf currently under construction, Charlotte is not at risk of being overbuilt due to 40% of these properties being build-to-suit for large single-tenant users. More than 2.5 msf of product under construction is concentrated in the CBD; these properties are heavily pre-leased. The most significant speculative project to deliver year-to-date is Arrowood South, a 114,000-sf creative office property located in the Airport submarket.

Rents

Overall gross asking rents increased to \$29.60 per square foot (psf) at the end of second quarter 2020, up 2.7% from \$28.81 psf year-over-year. In that timeframe, overall asking rents in the CBD/Uptown increased 5.6% to an average of \$34.95 psf while asking rents in the suburban markets increased to \$27.50 psf, a 1.4% increase. However, suburban submarkets are anticipated to see higher percentage rent increases in the near future as a flight to value accelerates.



Source: Cushman and Wakefield Market Insights

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)**	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	UNDER RENOVATION (SF)	YTD DELIVERIES (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
CBD / UPTOWN TOTALS	19,140,506	96,990	1,249,999	7.0%	-246,478	-137,437	760,346	2,547,915	0	0	\$34.98	\$36.78
Airport	10,077,032	5,124	1,345,249	13.4%	-78,621	-133,597	148,372	0	0	114,469	\$23.48	\$26.67
East	858,976	0	179,927	20.9%	-3,326	-44,341	1,018	0	0	0	\$16.04	N/A
Matthews	1,064,801	0	152,913	14.4%	53,242	54,787	88,581	0	0	0	\$16.74	\$18.46
Midtown	3,249,166	27,337	332,537	11.1%	-52,553	-384,022	69,222	1,508,077	0	112,444	\$33.41	\$35.09
Northeast / I-77	1,859,720	80,438	212,152	15.7%	-30,738	-18,041	42,829	0	0	0	\$25.19	\$25.59
Northwest	51,834	20,000	0	38.6%	-20,000	-20,000	0	0	0	0	N/A	N/A
Park Road	504,940	0	56,313	11.2%	16,122	-37,703	16,826	0	146,458	0	\$30.38	\$30.38
Plaza Midwood / NoDa	649,861	0	260,233	40.0%	53,574	55,384	20,000	109,972	40,000	45,000	\$32.73	\$33.18
South	1,079,906	1,748	59,683	5.7%	-10,715	6,384	21,738	0	0	0	\$25.99	\$27.00
South / 485	5,912,427	167,365	518,775	11.6%	-119,869	80,411	159,758	328,000	0	0	\$33.62	\$33.74
SouthPark	4,430,937	20,274	403,902	9.6%	-77,710	-117,071	98,206	0	0	0	\$32.92	\$35.66
University	4,266,620	63,349	532,997	14.0%	542	29,327	190,974	159,041	453,600	0	\$24.02	\$25.25
SUBURBAN TOTALS	34,006,220	385,635	4,054,681	13.1%	-270,052	-228,482	857,524	2,105,090	640,058	271,913	\$27.50	\$30.91
Class A	37,268,931	344,502	3,113,149	9.3%	-517,095	-95,499	1,162,616	4,283,211	640,058	125,731	N/A	\$32.91
Class B	15,877,795	138,123	2,191,531	14.7%	565	-270,420	455,254	369,794	0	146,182	N/A	N/A
CHARLOTTE TOTALS	53,146,726	482,625	5,304,680	10.9%	-516,530	-365,919	1,617,870	4,653,005	640,058	271,913	\$29.60	\$32.91

Mecklenburg County Housing Market Statistics

Mecklenburg is experiencing a severe shortage of homes for sale with demand far outpacing what builders can provide. Current months' supply of inventory in the County stands at a record low of 1.1 which has pushed the 12-month average home prices up 7.2% year-over-year to \$366,424.

Mecklenburg County's year-over-year home sales in August decreased 3.3%, with 2,007 properties sold compared to 2,075 properties over the same period last year. Pending sales are up 21.0% for the month with 2,389 this year compared to 1,974 in the previous year.

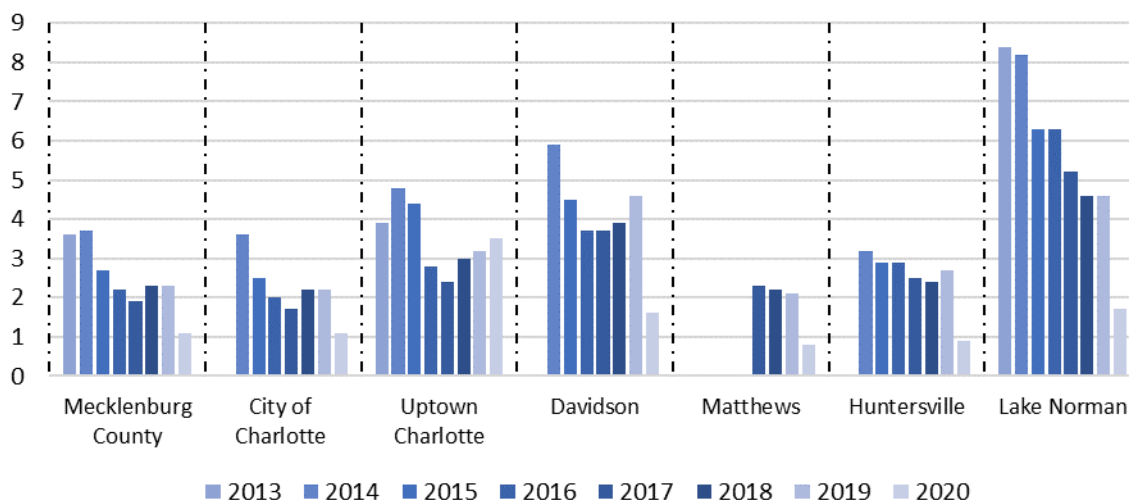
New listings year-over-year were down 6.2% with 2,273 properties up for sale compared to 2,424 properties up for sale over the same period last year.

The average home price in the 12-months ending August for the County is up 7.2% at \$366,424 compared to \$341,868 in the 12-months ending August 2019.

The inventory of available homes for sale in August is down 52.2% from last year at 1.1 months of inventory. Homes for sale in Matthews, Huntersville have only a combined 223 homes for sale with less than a single month of inventory available in both.

Lake Norman and Davidson both showed significant reductions in homes for sale in the two areas with Davidson dropping from 4.6 in 2019 to 1.6 months of inventory in 2020, while Lake Norman fell from 4.6 to 1.7.

Months Supply of Inventory for the month of August



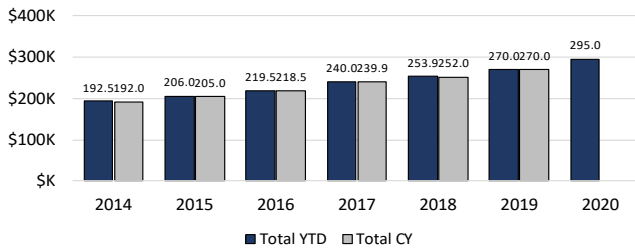
Source: Freddie Mac & Canopy MLS

MECKLENBURG COUNTY HOUSING MARKET

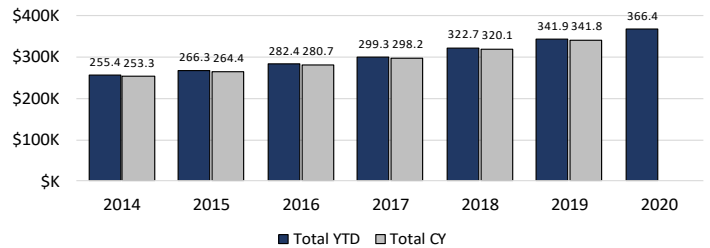
Mecklenburg County	August			Year to Date		
Key Metrics	2019	2020	Percent Change	Thru 8-2019	Thru 8-2020	Percent Change
New Listings	2,424	2,273	↓ -6.2%	18,489	16,990	↓ -8.1%
Pending Sales	1,974	2,389	↑ 21.0%	15,148	15,687	↑ 3.6%
Closed Sales	2,075	2,007	↓ -3.3%	14,006	13,795	↓ -1.5%
Median Sales Price*	269,983	313,419	↑ 16.1%	270,000	295,000	↑ 9.3%
Average Sales Price*	339,511	392,814	↑ 15.7%	341,868	366,424	↑ 7.2%
Percent of Original List Price Received	97.2%	99.1%	↑ 2.0%	97.2%	98.1%	↑ 0.9%
List to Close	84	80	↑ -4.8%	86	88	↑ 2.3%
Days on Market Until Sale	34	27	↑ 20.6%	37	34	↓ -8.1%
Cumulative Days on Market Until Sale	39	30	↑ 23.1%	45	40	↑ -11.1%
Inventory of Homes for Sale	3,963	2,095	-47.1%			
Months Supply of Inventory	2.3	1.1	-52.2%			

* Does not account for sale concessions and /or down payment assistance.

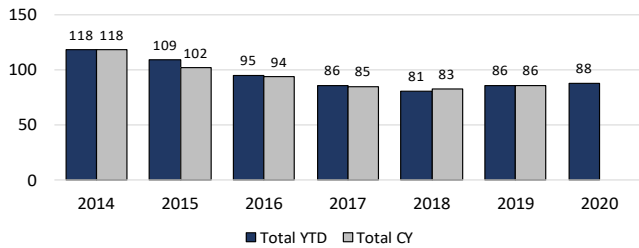
Median Sales Price



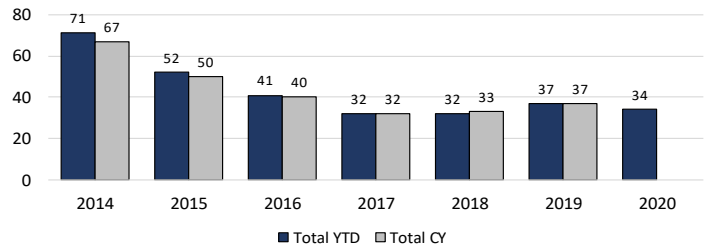
Average Sales Price



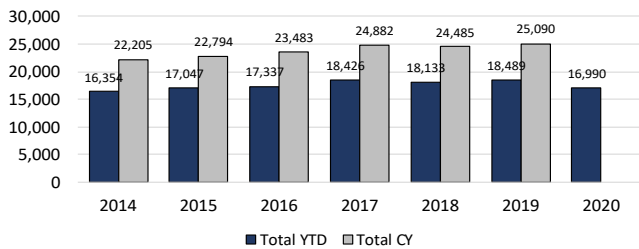
List to Close



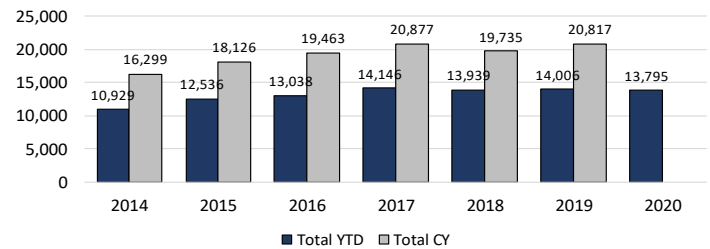
Days on Market Until Sale



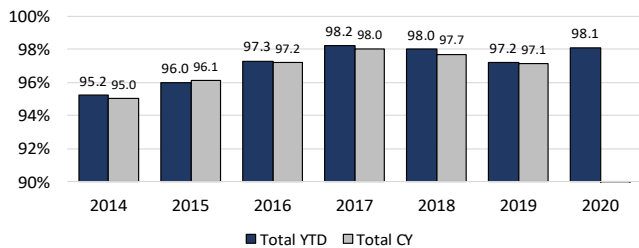
New Listings



Closed Sales



Percent of Original List Price Received



Cumulative Days on Market Until Sale

